DIRECT TESTIMONY OF
HARRY L. SCRUGGS
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2006-5-G

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Harry L. Scruggs, 1426 Main Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Senior Rate Analyst in the Gas Rates Department of SCANA Services, Inc.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a 1979 graduate of Erskine College where I received a Bachelor of Arts Degree in Mathematics. I was hired in June of that year by Carolina Pipeline Company as a gas control operator where I worked seven years. In August 1986, I went to work for SCE&G as an analyst in their Load Research Department. In February 1988, I was assigned to my current position. I have developed and assisted in the development of cost of service studies, gas cost recovery mechanisms, allocation methodologies, rate analyses, and rate design.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?

A. Yes, on a number of occasions.

Q. WILL YOU BRIEFLY SUMMARIZE THE DUTIES YOU PERFORM FOR SOUTH CAROLINA ELECTRIC AND GAS COMPANY?

A. I am responsible for the preparation and development of the Company's gas cost of service studies, gas rate design, gas quarterly return on common equity filings and gas cost analyses.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to 1) provide cost of gas data, including the over / under collection amount, for the period under review in this proceeding, which is November 2005 through October 2006, and 2) describe the changes to the gas cost recovery mechanism that the Company is proposing in this docket. In addition, I will provide demand cost of gas components for the residential, general service and large general service usage groups to be included in our published tariffs for firm service, beginning with the first billing cycle for November 2006.

Q. PLEASE DESCRIBE THE COST OF GAS RECOVERY MECHANISM AS CURRENTLY ADMINISTERED BY SCE&G.

A. The Commission approved SCE&G's current gas cost recovery mechanism in Order No. 2005-653, dated November 8, 2005. In that order, the Commission approved a two-part cost of gas recovery mechanism. That mechanism involves

(1) a commodity component which is calculated to recover the cost of commodity gas supplies (referred to in the tariff as the "Firm Commodity Benchmark" and also known as "CCOG"), and

(2) a demand component which is calculated to recover the cost of ensuring firm gas supplies can be delivered into SCE&G's system and which includes the fixed charges on upstream pipelines and other similar costs (referred to in the tariff as the "Demand Charges" component and also known as "DCOG").

All firm customers are charged the same Firm Commodity Benchmark or CCOG. However, the Demand Charges component or DCOG is calculated for each customer class based on its contribution to peak design day demand. Added together, these two components – the Firm Commodity Benchmark and the class-specific Demand Charges component – make up the PGA factor for each customer class.

In computing the Demand Charges component, SCE&G's net revenues generated from interruptible sales and transportation service are credited against the net fixed upstream pipeline charges. Then additional credits are made to reflect the sales of upstream assets through capacity release markets and other means, all as provided for in Order No. 2005-653.

The Company calculates monthly over and under balances separately for the Firm Commodity Benchmark and for the Demand Charges component. Each customer class carries forward its own net balance of over and under collections monthly. These calculations are filed with the Office of Regulatory Staff each month and ORS audits them annually in this proceeding.

Q. WHAT IS THE COMPANY'S CURRENTLY APPROVED RATE FOR COST OF GAS?

A. In Order No. 2005-653, the Commission approved cost of gas factors of Firm Commodity Benchmark for SCE&G of $1.29729 for Residential, $1.22218 for Small General Service/Medium General Service and $1.19823 for Large General Service. The above gas cost factors reflect a Firm Commodity Benchmark for all firm customer classes of $1.14135 per therm.

Under the provisions of Order No. 2005-653, SCE&G is allowed to make monthly adjustments in PGA factors as conditions change. During the review period, SCE&G has adjusted the factors authorized in Order No. 2005-653 both up and down. On average, the PGA factors charged during the review period were $1.28057 for Residential, $1.20315 for Small General Service/Medium General Service and $1.17847 for Large General Service. The above gas cost factors reflect an average Firm Commodity Benchmark for all firm customer classes of $1.11984. The current gas cost factors were established in February of this year and are $1.22695 for Residential, $1.15184 for Small General Service/Medium General Service and $1.12789 for Large General Service. The above gas cost factors reflect an average Firm Commodity Benchmark for all firm customer classes of $1.07101.

Q. DURING THE PERIOD UNDER REVIEW, HAS SCE&G ADMINISTERED THE PGA IN ACCORDANCE WITH THE TERMS OF ORDER NO. 2005-653?

A. Yes. During the test period, SCE&G has carefully followed the terms of Order No. 2005-653, and where applicable other Commission orders and directives. The results are set forth on Exhibit No.___ (HLS-1). That exhibit has been prepared in accordance with the applicable Commission orders and accurately reflects administration of the PGA under the terms and conditions established by the Commission.

Q. PLEASE EXPLAIN EXHIBIT NO. _____(HLS-1).

A. Exhibit No. _____(HLS-1) shows monthly over and under collections experienced by SCE&G in administering the PGA during the period under review. This exhibit shows that SCE&G entered the period under review with an under collection of $16,997,496 and due to high gas costs during the winter, this amount rose to $36,856,877 at the end of December 2005. During the period under review, SCE&G has reduced the amount of that under collection substantially, but will nonetheless carry into the forecast period an under collection that is projected to be $2,372,024 as of the end of the October 2006 billing month.

Q. WHAT COST OF GAS COMPONENTS ARE SCE&G REQUESTING THE COMMISSION TO ESTABLISH IN THIS PROCEEDING?

A. As shown on Exhibit No. ____(HLS-2), SCE&G is requesting the Commission to establish cost of gas factors, beginning with the first billing cycle of November 2006, of $1.21019 for Residential, $1.02351 for Small General Service/Medium General Service and $0.94133 for Large General Service. The above gas cost factors include a Firm Commodity Benchmark for all firm customer classes of $0.86275 per therm. Based on current NYMEX prices for natural gas during the forecast period, cost of gas factors established at these levels accurately reflect SCE&G's anticipated cost of gas during the forecast period, and allow for recovery of those costs along with the current under collection balance as the PGA mechanism and Order No. 2005-653 anticipate.

Q. HOW WERE THESE COMPONENTS CALCULATED?

A. The forecasted cost of the gas commodity is based on a 12-month weighted average of NYMEX strip prices. The forecast of demand charges is based on SCE&G's contracts with upstream suppliers of transportation and storage services. Demand charges and associated industrial sales margin credits and capacity release credits have been allocated among customer classes based on SCE&G's projection of peak design day demand ("PDDD") for the 2006-2007 winter season as set forth below.

Allocation to Classes

Peak Demand (PDDD) Allocation

Residential	257,862	73.67%
Small General Service	81,252	23.21%
Large General Service	10,929	3.12%
Total MCF	350,043	100.00%

Anticipated sales of gas by customer class are based on SCE&G's latest projections.

Q. DO THE REQUESTED PGA FACTORS ACCURATELY REFLECT THE REQUIREMENTS OF THE PGA MECHANISM AS ESTABLISHED BY THIS COMMISSION?

A. Yes. The requested PGA factors have been calculated in compliance with the PGA mechanism established by the Commission for SCE&G and in accordance with established practice in administering the PGA and auditing its results. They are based on NYMEX data which represent the most accurate forecast of future gas costs available in the market today. The Company requests that the Commission adopt the requested PGA components as proposed.

Q. WHAT CHANGES ARE THE COMPANY PROPOSING IN THE COST OF GAS RECOVERY MECHANISM GOING FORWARD?

A. The Company is proposing to continue making monthly adjustments of the PGA factors to reflect over or under recoveries in prior months and changes in the NYMEX price of gas. SCE&G is proposing to make the adjustments based on a month-by-month recalculation of its costs of gas, reflecting a rolling 12-month forecast. It is also proposing that carrying costs be applied to any over or under recovery balance at the Company's weighted average cost of capital of 8.43%, as established in the order in SCE&G's most recent gas rate proceeding. This cost of capital, if approved by the Commission, would supercede the interest provision contained in Order No. 2005-653 and will be reflected in the calculation of the cost of gas factors applied as a result of the order in this proceeding. One-twelfth of the annual 8.43% rate would be applied to the cumulative balance of over or under recovery as of the close of the prior month for each customer class for both demand and commodity. The resulting interest adjustment, positive or negative, will be applied to the demand and commodity cost of gas recovery balances for each customer class.

Q. PLEASE EXPLAIN HOW THE CURRENT ADJUSTMENTS ARE COMPUTED.

A. In Order No. 2005-653, the Commission set SCE&G's gas cost factor based on the NYMEX prices as they existed at the time the testimony in the docket was prepared. The underlying calculation for the factors was contained in Exhibit A to the Settlement Agreement which was attached to Order No. 2005-653 ("Exhibit A"). Because the Commission set a single gas cost recovery factor for the entire forecast period (12 months), and because prices varied month to month during such a period, there was an over or under recovery forecasted for each month in the analysis. Exhibit A computed the likely over or under recovery for each month in the 2005-2006 forecast period using the then-current NYMEX price for each month.

Under the adjustment mechanism approved in Order No. 2005-653, at the beginning of each month, SCE&G re-calibrated its forecast of over or under recovery for the upcoming month by substituting the current NYMEX price for the up-coming month in place of the NYMEX price that was current when Exhibit A was prepared. SCE&G also updated its projected firm sales volumes for each month as required.

SCE&G then calculated a new over or under recovery amount for the month based on the updated data. SCE&G also adjusted the calculation to account for any over or under recovery balance (both commodity related and demand related) carried forward from the prior month. SCE&G compared the resulting over or under recovery to the forecasted over or under recovery for the month included on Exhibit A. If the variance was material, then SCE&G re-computed the cost of gas factor for the month to reduce the variance for that month to zero. Material was defined to be a variance requiring an adjustment in a cost of gas factor of $0.01 per therm or more.

Q. WHAT ACTION IS SCE&G PROPOSING RELATED TO THIS MECHANISM?

A. SCE&G is proposing that the Commission continue to allow it to use the mechanism as approved in Order No. 2005-653 with one principal change. The change involves using a rolling 12-month forecast of gas supply costs and demand cost related factors to recalibrate the gas cost recovery factors each month.

Q. HOW WOULD THE IMPROVED MECHANISM WORK?

A. Under the present adjustment mechanism, SCE&G updates gas cost factors each month to match recoveries to the forecast presented in the most recent PGA. The forecast itself, however, remains in place from one PGA proceeding until the next PGA proceeding. The forecast is not updated during the 12 months between PGA proceedings and the forecast itself may be significantly out of alignment with the market by the time the forecast period ends. In other words, the current mechanism prices natural gas based on forecasts that, by the end of the pricing period, are over 12 months out of date.

SCE&G proposes to improve this aspect of the current mechanism by setting the gas cost factor for each customer class each month using a rolling 12-month forecast of both demand and commodity related inputs. SCE&G would update its cost of gas forecast each month using the new NYMEX prices for each of the next 12 months. SCE&G would use the NYMEX closing prices for a date selected by the Company allowing the revised rates to be filed in time for consideration by the Commission before the first billing cycle of the next month. The forecast would also be updated to reflect current assessments of anticipated industrial margins, capacity release credits and firm sales levels. The recalibrated 12-month recovery factor, adjusted to zero-out any prior month's over or under recovery over the 12-month period, would set the gas cost recovery factors for the up-coming month. If approved by the Commission, the new factors would be implemented by the first billing cycle of the month. Exhibit ____(HLS-3) demonstrates the application of the rolling forecast for the initial 12 month period. Exhibit ____(HLS-4) sets forth the changes to the Purchased Gas Adjustment that are required to reflect the improved mechanism discussed and requested in my testimony.

Q. WHAT ARE THE ADVANTAGES OF THE IMPROVED MECHANISM?

A. This improved mechanism recalibrates the recovery factors each and every month using the best and most current 12-month gas cost information. This "rolling forecast" will allow SCE&G's gas cost recovery factors to assimilate changes in the NYMEX 12–month strip as they occur. But it will also maintain the price stability that is created by using a 12-month average to calculate prices. Averaging gas costs over 12 months eliminates the effect of seasonal variations in prices and dampens the effect of short-term swings in price that may affect only one or two months out of a year.

Q. HOW WOULD THE IMPROVED MECHANISM BE ADMINISTERED?

A. SCE&G would continue to adjust prices only if the adjustment was material, defined as requiring an adjustment of $0.01 per therm or more in any given cost of gas factor (CCOG, DCOG or combined) for the month. SCE&G also proposes that it be allowed to book carrying costs, positive or negative, on over and under collection balances. Carrying costs would be booked at SCE&G's weighted average cost of capital of 8.43%, as calculated based on its most recent base rate order.

SCE&G would follow the same procedures for making the monthly adjustments as are currently applicable under Order No. 2005-653. SCE&G would make the adjustments effective on the first billing cycle of each month, and give the Commission and ORS written notice of the new factors along with supporting documentation setting forth the calculation of the new factors and the updated 12-month forecast.

Q. WHAT ACTION IS SCE&G PROPOSING CONCERNING THE ABOVE PROPOSAL?

A. SCE&G respectfully requests the Commission to approve the improved mechanism set forth above to be implemented beginning for bills rendered on or after the first billing cycle of November 2006 and the language changes to the Purchased Gas Adjustment set forth in Exhibit____(HLS-4). These approvals would remain in force until further order of the Commission.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Exhibit No. ____ (HLS-1)

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PURCHASE GAS ADJUSTMENT
OVER/UNDER COLLECTION

		COMMODITY COST PER THERM (COL. 1)	BILLING COMMODITY COST PER THERM (COL. 2)	DIFFERENCE (COL. 3) (1-2)	FIRM SALES THERMS (COL. 4)	COMMODITY (OVER)UNDER COLLECTION (COL. 5) (3x4)	DEMAND (OVER)UNDER COLLECTION (COL. 6)	PRIOR MONTH ADJUSTMENTS (COL. 7)	TOTAL MONTHLY (OVER)UNDER COLLECTION (COL. 8) (5+6+7)	CUMULATIVE (OVER)UNDER COLLECTION (COL. 9)
BEGINNING BALANCE ---										$16,997,496
NOV 05	Actual	$1.75007	$1.14135	$0.608728	15,595,902	$9,493,663	$795,639	$0	$10,289,302	$27,286,798
DEC 05	Actual	$1.51908	$1.14135	$0.377735	7,933,070	$2,996,596				
DEC 05	Actual	$1.51908	$1.20565	$0.313435	22,699,531	$7,114,821	($725,333)	$183,996	$9,570,079	$36,856,877
					30,632,601	$10,111,417				
JAN 06	Actual	$1.04427	$1.20565	($0.161378)	13,740,442	($2,217,400)				
JAN 06	Actual	$1.04427	$1.14135	($0.097078)	20,128,127	($1,953,990)	($1,948,334)	$32,347	($6,087,377)	$30,769,500
					33,868,569	($4,171,390)				
FEB 06	Actual	$0.99706	$1.14135	($0.144295)	9,945,301	($1,435,053)				
FEB 06	Actual	$0.99706	$1.07101	($0.073955)	20,697,878	($1,530,703)	($1,376,136)	$320,474	($4,021,418)	$26,748,082
					30,643,179	($2,965,757)				
MAR 06	Actual	$0.69986	$1.07101	($0.371145)	26,611,245	($9,876,633)	$9,053	$0	($9,867,580)	$16,880,502
APR 06	Actual	$0.47478	$1.07101	($0.596233)	16,169,548	($9,640,818)	$958,164	$0	($8,682,655)	$8,197,847
MAY 06	Actual	$0.67039	$1.07101	($0.400619)	9,497,077	($3,804,706)	$1,759,214	$0	($2,045,492)	$6,152,355
JUN 06	Actual	$0.57644	$1.07101	($0.494570)	7,969,535	($3,941,496)	$2,685,955	$0	($1,255,541)	$4,896,814
JUL 06	Actual	$0.62694	$1.07101	($0.444070)	6,712,236	($2,980,700)	$2,626,997	$0	($353,703)	$4,543,111
AUG 06	Actual	$0.66534	$1.07101	($0.405668)	6,782,045	($2,751,256)	$1,644,598	$302,644	($804,015)	$3,739,096
SEP 06	Projected	$0.70709	$1.07101	($0.363920)	7,506,000	($2,731,584)	$2,603,788	$0	($127,796)	$3,611,301
OCT 06	Projected	$0.65901	$1.07101	($0.412000)	8,872,000	($3,655,264)	$2,415,987	$0	($1,239,277)	$2,372,024

Exhibit No. ____ (HLS-2)

South Carolina Electric and Gas Company
Development of DCOG, CCOG and Total Cost of Gas Factor

PROPOSED	Residential	SGS / MGS	LGS
DCOG Factor	$0.34744	$0.16077	$0.07858
CCOG Factor	$0.86275	$0.86275	$0.86275
Total Cost of Gas Factor	**$1.21019**	**$1.02351**	**$0.94133**

Note: Above factors do not include interest component

Exhibit No. ____ (HLS-3)

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PROJECTED COMMODITY AND DEMAND COSTS
(OVER)/UNDER COLLECTION

	COMM COST PER THERM (COL. 1)	BILLING COMM COST PER THERM (COL. 2)	DIFFERENCE (COL. 3)	FIRM SALES THERMS (COL. 4)	COMMODITY (OVER)UNDER COLLECTION (COL. 5)	CUMULATIVE COMMODITY (OVER)UNDER COLLECTION (COL. 6)	DEMAND (OVER)UNDER COLLECTION (COL. 7)	CUMULATIVE DEMAND (OVER)UNDER COLLECTION (COL. 8)	TOTAL (OVER)UNDER COLLECTION (COL. 9)	CUMULATIVE TOTAL (OVER)UNDER COLLECTION (COL. 10)
BEGINNING BALANCE						($6,528,167)		$8,900,191		$2,372,024
Nov-06	$1.19614	$0.86275	$0.33340	15,266,000	$5,089,614	($1,438,553)	$394,254	$9,294,446	$5,483,869	$7,855,892
Dec-06	$1.22808	$0.86275	$0.36534	29,624,000	$10,822,689	$9,384,136	($3,961,845)	$5,332,601	$6,860,844	$14,716,737
Jan-07	$0.96152	$0.86275	$0.09878	42,456,000	$4,193,649	$13,577,785	($7,953,058)	($2,620,457)	($3,759,409)	$10,957,327
Feb-07	$0.80311	$0.86275	($0.05963)	39,520,000	($2,356,746)	$11,221,038	($6,974,725)	($9,595,182)	($9,331,471)	$1,625,856
Mar-07	$0.79808	$0.86275	($0.06467)	28,451,000	($1,839,890)	$9,381,148	($3,631,288)	($13,226,470)	($5,471,177)	($3,845,321)
Apr-07	$0.63265	$0.86275	($0.23010)	18,029,000	($4,148,419)	$5,232,730	($620,202)	($13,846,671)	($4,768,620)	($8,613,942)
May-07	$0.68309	$0.86275	($0.17966)	10,992,000	($1,974,769)	$3,257,960	$1,511,740	($12,334,931)	($463,029)	($9,076,970)
Jun-07	$0.69888	$0.86275	($0.16387)	8,503,000	($1,393,371)	$1,864,589	$2,283,542	($10,051,389)	$890,170	($8,186,800)
Jul-07	$0.70907	$0.86275	($0.15367)	7,494,000	($1,151,635)	$712,954	$2,566,566	($7,484,823)	$1,414,931	($6,771,869)
Aug-07	$0.68674	$0.86275	($0.17600)	7,575,000	($1,333,212)	($620,257)	$2,557,285	($4,927,539)	$1,224,073	($5,547,796)
Sep-07	$0.70379	$0.86275	($0.15896)	7,587,000	($1,206,008)	($1,826,265)	$2,575,156	($2,352,382)	$1,369,148	($4,178,648)
Oct-07	$1.06623	$0.86275	$0.20348	8,975,000	$1,826,265	($0)	$2,352,382	$0	$4,178,648	($0)
Total				224,472,000	$6,528,167		($8,900,191)		($2,372,024)	

Note: Above calculations do not include interest component

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PURCHASED GAS ADJUSTMENT
FIRM GAS ONLY

This adjustment is applicable to and is part of the Company's firm gas rate schedules. The cost will be calculated to the nearest one-thousandths of a cent, as determined by the following formula, and will be included in the base rates to the extent approved~~determined reasonable and proper~~ by the Public Service Commission. All costs and factors will be recalculated monthly for a forward looking 12-month ~~the succeeding twelve months or shorter~~ period. Adjustments in gas cost factors will be made for all factors in any month in which the recalculation indicates that any factor requires an adjustment of $0.01 per therm or more. The recalculation shall be made based on information current as of a mid-month date selected by the Company which allows for revised factors to be filed and acted on by the Commission before the first billing cycle of the month in which they are to be effective. All components of the recalculation (commodity costs, demand charges, firm sales, industrial revenue credits, capacity release credits, over or under collections, carrying costs, etc.) shall reflect current forecasts and balances as of the date of the recalculation. Differences between firm cost of gas revenues billed and firm cost of gas expenses recovered for each month, as detailed below, will be calculated monthly, for both Demand Charges and Firm Commodity Benchmark charges, and accumulated. The accumulated amounts will be applied to subsequent cost of gas factor calculations as detailed herein with carrying costs calculated at the rate of one-twelfth of an annual 8.43% rate applied to the cumulative balance of over or under recovery as of the close of the prior month for each customer class for both demand and commodity. The resulting interest adjustment will be applied to the demand and commodity cost of gas recovery balances for each customer class. The Demand Charges and Firm Commodity Benchmark charges shall be calculated as set forth below. ~~The formulas below will be calculated annually based on projected information. Differences between firm gas revenues billed and gas expenses at the end of the month will be calculated monthly, for both Demand Charges and Commodity Charges, accumulated and applied to the subsequent annual factor calculation.~~

A. Demand Charges:

Demand Charges per Therm by Class = [a-(b+c)] x Rate Class Percentages *
Firm Sales Therms & Transp. Volumes by Rate Class

(a) Capacity charges and reservation fees for transportation, storage and LNG.
(b) Released capacity at 75% of the net compensation received from secondary market transactions. (See "Note-1" below)
(c) Margin Revenue from interruptible rates above $.02081 per therm. Margin Revenue is the total amount received for such sale less the commodity cost of gas determined in B below.

* The initial rate class percentages are (Residential Rate 32 -73.67~~30~~%, General Rates 31, 33 & 36 -23.21~~22.65~~% and Large General Rates 34 & 35 - 3.12%)~~4.05%) as established in last rate case~~.

All calculations of Demand Charges by customer class shall be done ~~on an aggregated basis,~~ monthly. The full amount of any Margin Revenue as stated in C above,~~Demand Charge calculation~~ shall be credited to the Demand Cost. Additionally, SCE&G will revise~~Purchased Gas Adjustment calculation, even if~~ the rate class percentages to reflect the current annual peak day forecast~~credit results~~ in each annual Purchased Gas Adjustment filing. ~~a negative Demand Charge for that month.~~

Effective On and After The First Billing Cycle of November 2006

NOTE-1: "Released Capacity" shall include all transactions which involve the use of gas transportation capacity rights, storage rights or similar off-system rights or assets owned by SCE&G, but only if the cost of those rights or assets is borne by firm gas customers in South Carolina. "Net value received" shall mean the gross compensation received from the "released capacity" transactions, less all transportation charges, taxes or other governmental charges, brokerage fees or commissions, or other costs or charges related to the transaction, including all costs incurred in purchasing natural gas supplies that form part of the transaction.

B. Firm Commodity Benchmark:

Where: Firm Gas Cost per Therm = $\frac{(p-d)}{s}$

(p) Total variable cost of natural gas (processed or unprocessed), vaporized liquid natural gas, synthetic gas, propane-air mixture, landfill gas, or other source of methane gas or any mixture of these gases entering the Company's system in dollars including any additions or subtractions from Price Risk Adjustment.

~~Effective On and After The First Billing Cycle of November 2005~~

(d) The cost of gas attributable to all sales made by the Company to customers under an interruptible rate or contract or any Special Market Priced Customers, such costs to be calculated by dividing the total price paid for commodity gas for the month by the volumes of gas purchased for the month (adjusted for shrinkage) with the resulting unit price then multiplied by interruptible sales therms for the month. (See "Note-2" Below)

(s) Total firm therm sales of gas. Total sales being defined as those sales excluding gas sold under D above recorded on the Company's books in Accounts 480 through 483 per The Uniform System of Accounts for Class A and B Gas Utilities of the National Association of Regulatory Utility Commissioners (NARUC).

NOTE-2: Special Market Priced Gas includes, without limitation, market priced gas ~~Market Priced Gas~~ sold to Compressed Natural Gas (CNG) customers under SCE&G's Developmental Rate for CNG ~~Compressed Natural Gas~~ and emergency gas ~~Emergency Gas~~ customers sold under ~~tariff~~ provisions providing for Emergency Gas sales.

~~The appropriate revenue related tax factor is to be included in the calculation of Demand Charges and the Firm Commodity Benchmark.~~

C. Alternative Commodity Benchmark Calculation Related to Certain Interruptible Sales

Interruptible sales are priced to reflect the cost of gas supplies available at the time the sales are transacted. The Firm Commodity Benchmark is calculated as a system-wide average at month's end. In some cases, the market price of gas supplies may change within a month such that the Firm Commodity Benchmark plus $.02081 per therm is higher than the price quoted for specific interruptible sales. In such cases, SCE&G may calculate an Alternative Commodity Benchmark for those interruptible sales whose prices fall below the Firm Commodity Benchmark. SCE&G shall then use that Alternative Commodity Benchmark plus $.02081 per therm in calculating the Margin Revenue from those sales.

The Alternative Commodity Benchmark --The Alternative Commodity Benchmark shall be calculated using the following formula:

$$\textbf{Cost of Gas per Therm} = \frac{p}{d}$$

(p) Total variable cost of gas (of whatever type) entering the Company's system that was purchased, nominated, injected or otherwise obtained to support the interruptible sales whose prices are lower than the Firm Commodity Benchmark.

(d) The quantity of interruptible sales, in ~~deka~~therms, whose prices are lower than the Firm Commodity Benchmark.

The costs and quantities of gas used in such calculation shall be excluded from the calculation of the Firm Commodity Benchmark under Section B, above.

Margin Revenue from Certain Interruptible Sales: In those months in which SCE&G elects to compute an Alternative Commodity Benchmark for certain interruptible sales, it shall use that Alternative Commodity Benchmark to compute Margin Revenue from those interruptible sales and shall include the Margin Revenue so calculated in factor (c) of the Demand Cost calculation under Section A, above.

Whenever SCE&G elects to compute an Alternative Commodity Benchmark for certain interruptible sales, it shall provide written notice thereof to the Commission and the Office of Regulatory Staff, within 30 days of adopting the resulting adjustment to prices and volumes.

~~Effective On and After The First Billing Cycle of November 2005~~